This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS SECTION 01 OF 02 TEGUCIGALPA 001742

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TAGS: ECON ENRG EFIN ELAB EPET PGOV HO
SUBJECT: HONDURAS: PEPE LOBO FLIRTS WITH POPULISM ON ENERGY RATES; FINANCE MINISTRY REINS HIM IN

¶1. (U) On August 10, President of the National Congress (and Nationalist Party presidential candidate) Porfirio "Pepe" Lobo submitted a legislative initiative to eliminate the fuel adjustment surcharge from household electricity bills. Lobo justified the action by saying, "The most recent price reached by a barrel of oil is highly alarming and without a doubt affects the pocketbooks of the people..." National Party Congressional Whip Juan Orlando Hernandez quickly added that the proposal would require both a legal and technical finding ("dictamen") by the Congressional Energy Committee and a finding from the Ministry of Finance on fiscal impacts, but said Congress would request that these findings be expedited. Public comment by Congressmen from rival parties -- including two former heads of national electric company ENEE -- has been universally supportive, though with caveats about the need to also protect ENEE.

¶2. (U) Angelo Botazzi, Director of the parastatal electricity company ENEE, has said that unless Congress finds a way to fully compensate ENEE for the lost revenues, the elimination of the surcharge could ruin the company. CGT trade union Secretary General Daniel Duron echoed these concerns, noting

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that if cutting the surcharge further weakens ENEE, it puts union jobs at risk. Miguel Aguilar, President of the ENEE Worker's Union, spoke out publicly against the proposal, saying it would damage ENEE, which he called "part of the national patrimony." Botazzi underscored that ENEE's current contracts with private power generators (70 percent of which are thermal) allow the generators to pass-through to ENEE any increase in the cost of fuel. Therefore, as fuel prices continue to rise globally, the surcharge to customers becomes vital to ENEE's ability to honor its power purchase contracts.

¶3. (U) In public statements reacting to the proposal on August 11, Finance Minister William Chong Wong said, "The elimination of the adjustment is possible as long as it is compensated for by cutting other expenditures or increasing tax collection." The current budget already includes two energy subsidy programs, totaling 390 million lempiras (approximately USD 21 million) for users of less than 300 kilowatts of electricity per month. Chong is investigating how much of the energy subsidy has already been obligated, and told EconChief that if the cost of the program is less than the subsidy funds remaining, there should be no fiscal impact (that is, the subsidies could be reprogrammed to the new proposal). If the cost of the new initiative is greater than available funds, Chong said, the Congress would have to cut other GOH programs to offset the loss of revenue. Finally, he said, if the cost exceeds 600 million lempiras (approximately USD 32 million), as some are estimating, eliminating the fuel adjustment surcharge would be "out of the question."

¶4. (U) Whatever the initiative's cost, Chong told EconChief, it must meet the Constitutional requirement that new proposed expenditures also identify revenues to pay for it (similar to USG PAYGO requirements). If the Congress were to pass the legislation without identifying where they would get the funding, the Executive could petition the Supreme Court to rule the measure unconstitutional. (According to Chong, the GOH has used this tactic three times in the Maduro administration to halt budget-breaking proposals passed by Congress with a veto-proof majority.)

¶5. (U) Chong also made it clear that Lobo's proposal must be vetted with the International Monetary Fund (IMF), which he said has already contacted the GOH about the proposal and has expressed "some concerns." The Fund is seeking additional information about the proposal, in particular, confirmation that it would not lead the GOH to break its agreement with the Fund on fiscal responsibility. Chong assured EconChief that the President would not approve any proposal that did not fit within the IMF agreement.

¶6. (SBU) Comment: While politically popular, Lobo's proposal

makes little economic sense. The fuel surcharge was put in place to offset the increased fuel costs passed through to ENEE by electricity generators. To remove that surcharge as fuel inputs hit record high prices would leave ENEE in dire financial straits unless offsetting payments from the GOH were forthcoming. The Executive's clear dedication to fiscal discipline -- in the form of requiring offsetting cuts or revenue elsewhere in the budget to fund this initiative -- is welcome. However, even if a revenue-neutral mechanism were found to pay for Lobo's populist flight of fancy, the result would still be to dismantle a targeted energy subsidy that helps the poor and replace it with what is, in effect, an untargeted subsidy. Even if economically a wash, the new policy would be socially regressive and a step backwards from the status quo ante. In his private comments, Chong agreed with this criticism, considering Lobo's proposal little more than irresponsible campaign tactics. Now, Chong said, Lobo "will have to figure out a way to get himself off this hook." In the meantime, Post hopes that Congress, faced with the necessity of cutting subsidies to the poor to fund this extravagant initiative, will come to its senses and quietly shelve this proposal. End Comment.

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